



City of San Diego

**CARL DEMAIO**  
CITY COUNCILMEMBER – DISTRICT 5

**DONNA FRYE**  
CITY COUNCILMEMBER – DISTRICT 6

## MEMORANDUM

DATE: January 25, 2010

TO: Council President Ben Hueso

FROM: Councilmember Donna Frye *Donna Frye*  
Councilmember Carl DeMaio *Carl DeMaio*

RE: City Council Docket Request: Calculation of City's Annual Pension Contribution

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We respectfully request that a presentation on the calculation of the city's Annual Required Contribution (ARC) be docketed at the City Council to afford all of our Council colleagues and the public the opportunity to participate in a review of the issues laid out below.

Section 143 of the City Charter discusses the retirement of city employees, and states in part:

*The City **shall contribute annually an amount substantially equal to that required of the employees for normal retirement allowances**, as certified by the actuary, but shall not be required to contribute in excess of that amount, **except** in the case of financial liabilities accruing under any new retirement plan or revised retirement plan because of past service of the employees (**emphasis** added).*

First, the City Charter establishes that the pension plan is a contributory plan, but does not seem to include investment losses in defining what contributions are to be made exclusively by the city. Cheiron's presentation of the June 30, 2009 actuarial valuation notes that investment losses comprise \$73.8 million of the city's FY 2011 ARC payment. We are concerned that requiring the city to cover all investment losses in the ARC may

not comply with the City Charter. We are also concerned that the city may be covering all experience valuation losses.

Furthermore, in 2004, the Pension Reform Committee's Final Report covered the topic of an equal sharing of costs for normal retirement allowances:

*The City...should require a report...from SDCERS on the issue of the 50/50 employer/employee cost split by the end of the calendar year. (pg. 46)*

However, on page 21 of the June 30, 2009 actuarial valuation (lines 2 and 3 of Table IV-1) the Employer Normal Cost Rate and Member Contribution Rate are shown as unequal weighted totals. Furthermore, when categorically separated in employee classifications, these line items are unequal to a far greater extent in some cases.

It is our understanding that SDCERS is currently taking up a study of this matter, the results of which are anticipated in March. Given the structural impact of the pension liability to the city's budget, it is imperative that the city ensures it is fully complying with the Charter requirement of "substantially equal" contributions.

In an effort to better understand how these inequalities satisfy the City Charter requirement, we request that SDCERS present the full City Council with a briefing and written documentation on the following items, and that the item be docketed at a meeting of the City Council no later than March 30, 2010:

1. Request and receive the report in progress from SDCERS on their findings related to the "substantially equal" issue. This should include a detailed description of each component of Normal Cost – meaning that the variance between employer and employee shares of normal cost detailed on page 21 of the June 30, 2009 actuarial valuation should be explained.
2. Request and receive a report from SDCERS that identifies the portion of the city's Annual Required Contribution (ARC) attributable to investment losses not only for the June 30, 2009 valuation, but for each of the last 10 years.
3. Request and receive a report from SDCERS that identifies the portion of the city's Annual Required Contribution (ARC) attributable to experience losses not only for the June 30, 2009 valuation, but for each of the last 10 years.
4. Request and receive long-term projections of the city's annual ARC, UAL and percent of payroll values, taking into account pension plan that applies to many new hires.

We look forward to exploring the issue in depth as part of our collective efforts to restore the city's financial health and eliminate the structural budget deficit.

cc: Honorable Mayor and City Councilmembers  
Andrea Tevlin, IBA  
Jan Goldsmith, City Attorney  
Mark Hovey, Interim CEO, SDCERS  
SDCERS Board of Administration  
Stanley Keller  
Eduardo Luna, City Auditor  
Outside Auditors, Macias Gini & O'Connell  
Public Members, City Audit Committee